



Auditor-General of South Africa

Ulundi Municipality
Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Ulundi Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ulundi Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

8. As disclosed in note 36 to the financial statements, material electricity losses to the amount of R62 219 (24,89 million kilowatts – 35%) (2014: R3,32 million -16,95 million kilowatts-22%) were incurred due to both technical and non-technical distribution losses.

Financial sustainability

9. The statement of financial performance indicates that the municipality incurred a net loss of R27,04 million during the year ended 30 June 2015 and as of that date, the municipality's current liabilities exceeded its current assets by R69,67 million. These conditions, along with other matters as set forth in note 40 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's financial sustainability in the foreseeable future.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for basic service delivery presented in the annual performance report of the municipality for the year ended 30 June 2015.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned

objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the basic service delivery objective.

Additional matters

18. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective, I draw attention to the following matters:

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information the basic service delivery objective. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

20. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report thereon.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

23. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
24. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

25. Irregular expenditure incurred by the municipality was not always investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

26. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

Leadership

27. Leadership is not always holding staff accountable for poor performance and repeated transgressions particularly with irregular expenditure and compliance with legislation.

Financial and performance management

28. Management was not effective in ensuring that the annual financial statements were accurate and complete, and that officials of the municipality complied with key legislation. This is attributed to key officials lacking appropriate skills as well as a lack of rigorous monitoring of action plans to address key audit matters by management.

Governance

29. The effectiveness of the risk assessment performed by management was not evident as material adjustments to the financial statements were required and material non-compliances occurred. There was also slow responses by management in addressing recommendations by internal audit and the audit committee.

Auditor General

Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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